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FISCAL IMPACT STATEMENT

LS 6181 | **NOTE PREPARED:** Jan 3, 2008
BILL NUMBER: SB 272 | **BILL AMENDED:**

SUBJECT: Property Tax Benefits for Trusts.

FIRST AUTHOR: Sen. Zakas | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL** **DEDICATED** **FEDERAL** | **IMPACT:** No Fiscal Impact

Summary of Legislation: This bill specifies that a qualified personal residence trust is entitled to certain property tax deductions and the homestead credit during the period in which the grantor of the trust is entitled to occupy the residence rent-free under the terms of the trust and is otherwise eligible for the deduction or credit. (The introduced version of this bill was prepared by the Probate Code Study Commission.)

Effective Date: Upon passage.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: This bill extends the definition of the owner of tangible property to the grantor of a qualified personal residence trust (QPRT) created under United States Treasury Regulations, who is in possession of property transferred to the trust, and is entitled to occupy the property rent-free under the terms of the trust. Under current law an owner of tangible property is entitled to all applicable property tax deductions and credits if he qualifies. As a result, this bill would extend all applicable property tax deductions and credits to the grantor of a QPRT.

Background: A QPRT is a financial instrument through which an individual can remove the value of a home from an individual's taxable estate. An individual would make a gift of his home to a QPRT. Under U.S. Treasury regulations, an individual is permitted to create two QPRTs, one for a principal residence and one for an occasional residence. The individual would retain the right to live in the home for a specific length of time, usually about ten years. During that period, they would not pay rent, but would be responsible for all of the other expenses of the home, including property taxes, maintenance fees, and the cost of ordinary repairs. At the end of the 10-year term, assuming the individual is still alive, the home would pass to their children free of the estate tax. The grantor may remain in the home if they agree to pay rent to the children at the going rate for such rentals.

For taxes payable in CY 2009 and after, this bill would give a property tax deduction to grantors of QPRTs for the length of the trust. The fiscal impact on property taxation is negligible since the grantor would have been liable for the property taxes if they had not created a QPRT. There would be no effect on the AV of existing property or on local revenues.

State Agencies Affected:

Local Agencies Affected: County auditors.

Information Sources: *CPA Journal*, December 2005.

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